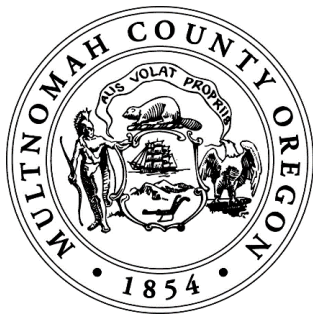


DCS Purchasing Controls

Controls strengthened in response to theft

December 2018



Multnomah County Auditor's Office

Steve March, Multnomah County Auditor



Office of Multnomah County Auditor

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December 5, 2018

To: Deborah Kafoury, Chair; Marissa Madigral, Chief Operating Officer;
Kim Peoples, Director Department of Community Services; Rod Underhill, District
Attorney; Mike Reese Sheriff

From: Steve March, County Auditor

Re: Report to Management of DCS Purchasing Controls

In October 2017 at the request of the Department of Community Services (DCS), and in cooperation with the District Attorney and Sheriff, the Auditor's Office performed a forensic investigation of its Animal Services Field Services Program Manager's suspicious purchases. The investigation found that the Program Manager made over \$50,000 of inappropriate purchases. Most of these purchases were made using a procurement card although some were also made from a uniform vendor.

After completing the forensic investigation, we reviewed DCS's purchasing controls which were changed as a result of the incident. We found that DCS responded quickly by putting strong preventative controls in place that will correct the weaknesses that contributed to the fraud. This report includes a few minor recommendations that DCS has committed to implement.

We appreciate DCS's cooperation and assistance throughout both the investigation and this report.

C: Jenny Madkour, County Attorney

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Report Highlights

What we found

A Field Services Program Manager (PM) within the Animal Services Division of the Department of Community Services (DCS) used a procurement card (p-card) to make inappropriate purchases. The PM also purchased items for his own use through the normal DCS accounts payable process. A separate report is available upon request from the Auditor's Office that details the results of our investigation.

DCS moved swiftly to make changes in its internal controls to help prevent future theft. After broadening our work to include all DCS p-card transactions, we did not identify any other p-card misappropriations, but we did find some minor issues that deserve reminders.

Why we did the audit

At DCS's request, we estimated the dollar value of inappropriate purchases made by the PM of Animal Services. Based on our review of the PM's purchases, we decided to review a sample of DCS p-card transactions to determine whether inappropriate purchases were isolated to the PM. We also wanted to check whether DCS put controls in place to help prevent future inappropriate purchases.

What we recommend

DCS should continue to monitor p-card and accounts payable processes. With the new ERP system, Workday, and a new Field Service Program Manager, DCS may need to make adjustments to ensure internal controls over p-cards and accounts payable remain strong and the cost of such controls do not exceed their benefits.

For roughly 11 months, the PM in Animal Services made purchases that were inappropriate and went undetected. The PM made most of these purchases with a p-card although he made some purchases through a uniform and equipment vendor using limited purchase orders in the accounts payable process. We estimate inappropriate purchases totaled over \$52,000. Inappropriate charges made up 91% of the items that the PM purchased on his p-card. We counted 327 inappropriate items purchased in 81 different p-card transactions. We looked at what internal control weaknesses or other factors led to these misappropriations by the PM and determined what DCS has done since to correct problems. We also examined an expanded sample of *all* DCS p-card purchases to ensure that misappropriations were isolated to the PM in Animal Services.

How the p-card process worked before the inappropriate purchases stopped.

Multnomah County designed its p-card program to be an efficient and cost effective method for streamlining the purchasing process. The County uses Bank of America and its web-based application, WORKS, as the banking institution to facilitate the process.

With proper authorization from County departments, Central Accounts Payable initially sets up procurement cards for County employees. In DCS, the cardholder must turn in all procurement card receipts to an accounts payable fiscal specialist. The p-card holder uses a stamp that includes who paid for the purchase, the cost object to be charged, approver's signature, and date and then provides the receipts to a fiscal specialist. The fiscal specialist processes the p-card receipts in the County's online procurement card system and matches receipts to each p-card statement. The bank mails monthly statements of procurement card transactions to the fiscal specialist who emails a copy of the statement to the cardholder. The cardholder is supposed to return the statement to the fiscal specialist with the cardholder's and their supervisor's sign-off along with any receipts not already provided.

The PM circumvented the p-card system controls by allegedly forging his supervisor's signature on the receipts and monthly statements to keep the supervisor from reviewing the p-card purchases. With all sign-offs apparently in place, accounts payable processed the unauthorized purchases.

DCS changed its p-card processes to reduce the potential for fraud.

In response to the theft by the PM, DCS changed its p-card processes. DCS developed a p-card weekly recap sheet to replace the p-card approval stamp. DCS now e-mails a copy of the monthly p-card statement to both the cardholder *and* the cardholder's supervisor. DCS accounts payable also plans to prepare quarterly reports and provide them to the cardholders' supervisors.

Quarterly reports will summarize p-card transactions and show vendor activity, purchasing trends, and provide detail a supervisor needs to help ensure all p-card purchases are appropriate. DCS accounts payable also plans to perform detailed reviews of p-card activity. A finance specialist senior will perform a complete review every other month for the previous two months activity. Because only cardholders are required to take p-card training, DCS is educating managers who approve p-card purchases but do not have p-cards. DCS may need to adjust some of these new internal controls for the new Enterprise Resource Planning (ERP) system, Workday, that is scheduled to replace the County's current ERP system in July 2018.

DCS' changes should help prevent future problems; these reminders should help too.

We reviewed p-card transactions that occurred before DCS made any of these changes to ensure there were no additional problems. Overall, we found that the alleged procurement card theft appeared to be isolated to the PM and believe the changes made by DCS will help prevent problems in the future. During our testing of p-card transactions, we noted several instances that we have brought to management's attention as reminders.

- One p-card user approved their own purchases. We have communicated with this user and they pledged to stop.
- DCS p-card holders should not use rewards cards when making County purchases to comply with FIN-3. Safeway, Fred Meyer, and Amazon Prime Rewards are examples of vendors that offer rewards. We found one case of reward card use out of 131 items tested.
- We only found 27% of packing slips related to p-card purchases. No packing slips included the receiver's name. DCS should review and shore up their process for receiving goods.
- When DCS purchases catering or refreshments for meetings, the purchaser should provide adequate documentation including the business purpose, and list of attendees. We found meeting agendas were not always included in the p-card support.
- Travel and training forms should be reconciled in a timely manner.
- We found one hotel that charged a County occupant tax but did not charge a different employee for the same stay. Hotels will not always waive taxes but in this case, *both* occupants should not have been charged taxes.
- It would be helpful for the Business Services group to have a signature file that they can use to help verify signatures in their review until Workday is operational.

How Animal Services' uniform purchases worked before the inappropriate purchases stopped.

In FY17 there were approximately 10 FTE Animal Control Officers (including the PM) working in Field Services who provided emergency response throughout Multnomah County to calls concerning animals attacking and injuring people. Animal Control Officers also rescued injured, sick and abused animals, investigated animal bite cases, enforced city, county and state laws, and provided community education and assistance to help resolve neighborhood animal nuisances.

Animal Services provides these officers with uniforms and equipment needed to perform their jobs. Typical gear includes shirts, pants, boots, protective vests, coats, hats, gloves, and bite sticks. Animal Services uses one local vendor to supply Animal Control Officer needs. Usually, the officer in need of gear or the PM picked up the uniforms at the vendor's store.

In prior years, Animal Services closely monitored all uniform and equipment purchases. However, the most recent PM did not keep track of uniform or equipment purchases. In fact, the PM ordered inappropriate goods from the uniform vendor and likely picked up these items at the store himself. The PM's supervisor did not need to approve these purchases under the DCS procedure at the time; the PM's sign-off on the invoice was sufficient to authorize payment. This allowed the PM to order and pick up inappropriate items from the uniform vendor such as a watch, gun scopes, binoculars, backpacks, and a gun cleaning kit.

DCS has changed its processes to reduce the potential for inappropriate purchases.

DCS moved quickly to put controls in place to address this situation. DCS will have a policy of always having someone above the person ordering goods review the purchases. This control alone, if followed, would likely have detected the PM's inappropriate purchases. For proper segregation of duties, the person ordering the goods should not pick them up. DCS should consider having the uniform vendor ship goods to Animal Services instead of having them picked up.

Once the new PM begins work, Animal Services plans to use an authorized uniform listing. As a temporary measure until the new PM begins work, the Animal Services Director reviews all uniform orders. When we examined uniform vendor invoices, the Animal Services Officer's name on the invoice was not always correct. To ensure proper tracking, Animal Services needs to make sure that the uniform or equipment purchase is associated with the right officer's name.

Tighter Controls Needed for Key Cards.

We identified terminated employees that had had access to volunteer, temporary, and on-call card keys as a risk. Accordingly, we worked with Animal Services & County Facilities Management to confirm the active cards for the Animal Services.

We followed up on 29 key cards and were able to confirm that 25 were in the possession of appropriate shelter staff and accounted for. Of the four missing cards, Animal Services recently deactivated one. The remaining three, however, were active cards and unaccounted for. Once we identified these cards, Animal Services staff took immediate action and had the cards deactivated.

While our procedures only looked at the volunteer, temporary, and on-call access cards for the Animal Shelter, it is a good reminder County-wide that these access cards need to be monitored and tracked to help reduce the risk of key card misuse.

Recommendations

1. DCS should continue to monitor p-card and accounts payable processes. With the new ERP system, Workday, and a new PM, DCS may need to make adjustments to ensure internal controls over p-cards and accounts payable remain strong and the cost of such controls do not exceed their benefits.
2. DCS should review and shore up its process for receiving goods.
3. Animal Services should ensure that uniform purchases are clearly associated with an Animal Control Officer by making sure the correct employee name is on the vendor invoice.
4. Develop a signature file that Business Services can use to help verify signatures in their review.
5. Develop controls to help monitor and track key cards.

Objective, Scope, and Methodology

The objectives of this audit were to:

- Determine if inappropriate purchases were isolated to the Field Services Program Manager in Animal Services.
- Determine whether DCS put internal controls in place to ensure all purchases are appropriate.

To accomplish these objectives we:

- Expanded our p-card testing to all DCS employees and further reviewed internal controls over accounts payable.
- Randomly selected 100 p-card transactions and selected an additional 31 judgmentally.
- Reviewed travel and training packets.
- Reconciled the Bank of America p-card transactions to the County's Enterprise Resource Planning (ERP) system (SAP).
- Specifically looked at uniform purchases for Animal Control Officers.
- Checked whether DCS accounted for the active key cards for volunteer, temporary, and on-call staff.
- Interviewed the Senior Procurement Analyst, Accounts Payable Supervisor, and Fiscal Specialists responsible for processing accounts payable and procurement cards.
- Reviewed County and DCS policies and procedures.

For this report, we analyzed financial data for 07/01/16 through 11/30/17 from SAP, the County's enterprise resource planning system. Based on the annual review of SAP datasets by the County's

external auditor, our office has determined that the data were sufficiently reliable for the purposes of this report. We reconciled WORKS data to SAP.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Staff

Annamarie McNiel, Senior Management Auditor
Craig Hunt, Principal Management Auditor

Response to Audit



Department of Community Services

Director's Office * 1600 SE 190th Avenue, Portland, Oregon 97233 * (503) 988-5000 * Fax (503) 988-3048

November 16, 2018

Auditor Steve March
501 SE Hawthorne Blvd, Suite 600
Portland, OR 97206

Dear Auditor March:

Please accept this letter as management's response to the October 2018 DCS Purchasing Controls Audit. Thank you for the thorough review and analysis conducted by you and your staff and acknowledgment that the Department of Community Services (DCS) moved swiftly to make changes to our internal controls to prevent future theft. We are in agreement with the recommendations and have taken steps to modify department purchasing practices.

Recommendations:

- 1. DCS should continue to monitor p-card and accounts payable processes. With the new ERP system, Workday, and a new PM, DCS may need to make adjustments to ensure internal controls over p-cards and accounts payable remain strong and the cost of such controls do not exceed their benefits.**

RESPONSE

DCS concurs with the importance of continued monitoring of the p-card and accounts payable business processes. DCS continues to evaluate our current internal controls and is prepared to make additional changes as new business processes become clearer with the go-live of both Multco Market Place e-procurement and Workday on January 1st. DCS Business Services staff have been actively participating throughout the entire ERP process and will make the prudent adjustments as identified through our continuous process monitoring

- 2. DCS should review and shore up its process for receiving goods.**

RESPONSE

DCS Animal Services has instituted a new process with their uniform vendor which precludes individual Animal Services staff from purchasing directly from the store. One point of contact has been identified for purchasing and the new process stipulates that the uniform supplier only issue goods off a purchase document prepared by the Field Services Manager and ships all orders directly to the Animal Services Offices. The supplier is aware of and in agreement with this new process.

Additionally, learning from the Animal Services process, DCS Business Services has evaluated the Department wide receiving operations to ensure appropriate segregation of duties is maintained and that person ordering goods does not also pick them up.

- 3. Animal Services should ensure that uniform purchases are clearly associated with an Animal Control Officer by making sure the correct employee name is on the vendor invoice.**

RESPONSE

DCS Animal Services has updated their Uniform Policy for Field Services (current revision 5/2/2018) and has taken steps to require the uniform vendor only process orders which the Field Services Manager has submitted and approved the purchase. Vendor invoices now include an employee name and can be linked directly back to the equipment issued list for each employee. This new business process ensures that there are checks and balances in place to monitor equipment and uniform purchases. Business Services will perform quarterly reviews of the vendor invoices and employee's equipment issue list maintained by Field Services.

- 4. Develop a signature file that Business services can use to help verify signatures in their review.**

RESPONSE

DCS Business Services completed an update of the department authorized signature list used to identify key department personnel approved to disburse County funds. The list is used to review approved vendor invoices and p-card statements processed by Business Services. Post January 1st go live, Business Services will continue to use the signature list to verify the weekly p-card recap sheet and monthly p-card statements. This is necessary because Workday is not integrated with the Bank of America banking card service and our existing process will continue to be used.

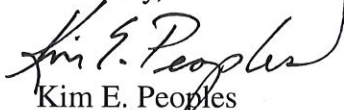
- 5. Develop controls to help monitor and track key cards.**

RESPONSE

DCS Animal Service has instituted a process in which all key cards are retained in designated areas with a sign out log used to clearly track the location of each card. This log contains the following information: Date of Use, Time Out, Time In (returned), and Name of Person Signing-Out Card. At the end of each business day, the log is reviewed to make sure that all cards have been returned. If a card is missing, the person who signed out card is contacted to immediately return the card. If we are unable to contact that person, FM Alarms is immediately notified and the card is deactivated. DCS Business Services will initiate quarterly audits to ensure compliance with the new procedure.

In closing, my appreciation is extended to you, Annamarie McNiel and Craig Hunt for presenting these recommendations to The Department of Community Services. DCS has already initiated corrective steps to address the recommendations and will develop additional controls where they are needed. Finally, we will continue to evaluate the business practices and ensure that they are working as intended.

Sincerely,



Kim E. Peoples

Director, Department of Community Services